HAWAII STATE
FEDERAL CREDIT UNION

The Honorable Debbie Matz
Chairman
National Credit Union Administration Board
1775 Duke Street
Alexandria, VA 22314

Subject: Prompt Corrective Action Risk-Based Capital 2 Comment Letter

Dear Chairman Matz,

I am writing on behalf of Hawaii State Federal Credit Union, which primarily serves state and local government employees, their family, and select employee groups. We have over 80,000 members and $1.3 billion in assets. We are well capitalized under the current system and will remain well capitalized under the proposed rules. Hawaii State Federal Credit Union (FCU) appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

Hawaii State FCU supports risk-based capital for credit unions as part of an overall effort to reform credit union capital requirements. We agree with the principle that a credit union should hold levels of capital commensurate with the inherent risk of the assets it holds. However, based on our review of the proposal, combined with the comments provided by CUNA and NAFCU, we are unable to support implementation of the proposed rule in its current form.

We do not wish to reiterate specific concerns already expressed by the aforementioned stakeholders and the numerous other credit unions that have provided comments. Hawaii State FCU's objection continues to be focused toward the lack of information regarding the processes and rationale used to create the proposed rule.

When the first RBC proposal was issued, credit unions were told that the proposed risk weightings underwent a detailed and thorough analysis. The proposal contained risk weighting and limits that were appropriate for credit unions. The response by the credit union industry was a strong desire for transparency. Credit unions wanted to understand the rationale/support behind the proposal. Instead of providing this transparency, NCUA has chosen to re-write its risk based capital proposal. Although we believe the second proposal is an improvement over the first, we are perplexed on why NCUA chose to re-write the proposal without providing the original analysis to credit unions to vet. For example, page 216 of the proposal regarding investments, such as corporate bonds, asset-backed securities, states:

"For these types of assets, the Board has assigned risk weights that it believes reflect the risk of the assets that could be used to fund employee benefit plans."

This statement does not provide any support for the risk weighting assigned to these investments. Are the risk weights based on credit union industry historical loss analysis, credit ratings statistics, economic models, etc.?

Without this information, can credit unions and the NCUA truly have an open and transparent discussion on risk-based capital?

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,

Edmund Pang

Edmund Pang
SVP & Chief Financial Officer

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